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SUBJECT: FOREST SECTOR REFORM IN THE DRC: STAKEHOLDER
REACTIONS, PART II OF II

REF: A. A. SECSTATE 56792
[1](#)B. B. SECSTATE 87904
[1](#)C. C. KINSHASA 1037

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[1](#)1. (SBU) Summary: The GDRC is reviewing 156 forestry titles for conversion into new titles as part of its forestry sector reform and economic development plan. The process is intended to regulate the forestry sector in a way which encourages sustainable resource management, improves forestry conservation efforts, and maximizes the sector's contribution to local and national economies. Despite significant technical and financial support from the donor community, the process remains limited in scope. Competing expectations of the private sector, civil society, GDRC, and international community may not all be met unless additional reform measures are taken by GDRC to support the forestry title conversion process. End summary.

Background

[1](#)2. (U) As part of the Congo River Basin, the DRC is home to the world's second largest rainforest. The least exploited rainforest in the region, it supports approximately 40 million people throughout the country and 20 active commercial logging companies concentrated in the west. In 2005, President Kabila issued a decree reinstating a moratorium on all logging concessions and requiring all existing forestry titles to be converted into new titles. The objective is to ensure that all operating concessions are legal and in compliance with the 2002 Forestry Code -- particularly those which may have been issued between 2002 and 2005, in contravention of the 2002 moratorium on logging concessions, which was not published until 2004. (Note: Congolese legislation must be published in the official GDRC journal in order to be considered law. Whether or not the moratorium was in effect before its official publication in 2004 is a source of contention between the GDRC and private concession holders. End note.) Of the 156 titles up for conversion, 114 have had their applications reviewed by a technical working group (TWG) and await decision by an inter-ministerial commission (IMC) yet to be formed. (ref A)

13. (SBU) According to Francoise Van de Ven, Secretary-General of the Federation des Industrialistes de Bois (FIB), a consortium of major logging companies in the DRC, forestry sector reform is long overdue. Jose Mingas and Sabbagh Youssef, co-owners of Trans-M and ITB, agree that reforms, such as simplifying the tax system and improving rail, road, and water transport, could support private sector development in the DRC's forestry industry and lead to a vibrant industry. Lacking these necessary changes, however, domestic industry leaders hold little hope that the forestry sector will be transformed into an "engine of the economy" even after the title conversion process is completed. Rather, private sector reps such as Youssef and Mingas fear that this initiative might have the opposite effect and further weaken the industry, given that some companies now risk title cancellation and/or financial losses.

14. (SBU) According to Van de Van and Youssef, small family-owned firms, which constitute the majority of logging companies in the DRC and were granted concessions after 2002, are assumed to be the most likely to face immediate closure. (Comment: It is unlikely that small firms would be willing or able to contest IMC decisions given their low profitability. In contrast, FIB, Trans-M, and ITB reps told us they would consider taking legal action against unfavorable decisions made by the IMC. End comment.) Interviews with public, private, and government reps, including the Ministry of Environment's legal expert, revealed that little attention has been given to the potential socio-economic impact these closures might have on local economies following the permanent cancellation of a title or prolonged legal battles over IMC decisions.

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15. (SBU) Larger companies who oppose the conversion process generally fear financial losses may result. Many worry they won't be able to support increased production costs implied by sustainable forest management plans (SFMP), mandated by the Forestry Code, and required for conversion. (Note: According to USAID/Carpe, production costs for SFMPs are estimated between USD 2.50 and USD 5.00 per ha (USD 1.00 to USD 2.0 per acre) End note.) Youssef expects that, under increased financial constraints, future expansion of his medium-sized company will not be possible. He predicts that only a handful of companies will survive the conversion without suffering economic losses. Van de Ven said she knows of at least 2 companies considering closure and several others looking to reduce their operations given their bleak expectations for the industry's future.

16. (SBU) Private sector reps said the conversion process offers few benefits and only increased uncertainty for their operations. Van de Ven said that while the FIB has complied with GDRC conversion requirements and incorporated sustainable forestry management into its mission, the GDRC has not reciprocated with any efforts to support private sector development - whether through the improvement of road/rail/water transport, simplification of the tax system, or production incentives. She reported that FIB companies alone have constructed: 101 schools; 34 health centers and 4 hospitals; nearly 2 km of roads; and over 1,900 homes totaling USD 16.5 million. This comes in addition to over USD 50 million FIB claims to have invested in constructing other structures for local communities. Van de Ven expressed frustration when noting that, meanwhile, the GDRC is preparing to add five new taxes to the forestry industry in addition to the 171 which already exist. ITB and Trans-M reps agreed with Van de Ven that the conversion process "serves them in no way" and is "only complicating things" in the sector. Most private sector reps felt that by being required to make contributions to local development, while at

the same time paying high taxes, they were being asked to take on the GDRC's role.

Civil Society: Wishful Thinking ?

¶17. (U) Public interest in the DRC's forestry industry focuses on concerns for forestry conservation, indigenous rights to land resources, and socio-economic development of forest-dependent communities. Of primary concern is the redistribution of 40 percent of tax revenues generated by the forestry industry to decentralized entities. Representing over 800 NGOs, the Congolese Coalition of National Environmental NGOs (CRON) has, with USAID/CARPE and the World Resources Institute's Global Forest Watch (WRI-GFW), assisted communities in selecting representatives to address these issues as members of the Technical Working Group (TWG) and the Inter-Ministerial Commission (IMC).

¶18. (SBU) CRON's director, Flory Botamba, like World Wildlife Fund (WWF) and WRI-GFW officers, indicated that his organization received support from the GDRC and believes it to be sincere in its desire to work collaboratively with civil society. He said that, with the exception of the FIB, CRON had received less cooperation from the private sector. While not singling out any particular company, CRON's director claimed that he was once physically threatened by a private sector representative.

¶19. (SBU) Internal reports by local NGO's involved in the community assessment phases of the conversion process listed the following obstacles to their work: restricted access to concessions; difficulty traveling between concessions; language barriers; lack of familiarity by GDRC and community reps with conversion process and forestry code; intra/inter-communal disputes over shared concessions; insufficient funding for assessment work; interference of self-serving government deputies; and resistance of local communities to participation in the conversion process. According to the USAID/Carpe, it would be unrealistic to think that communities will be able to raise, address, and/or resolve all of their grievances with the commercial logging industry through this process.

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DRC Government: A Green Revolution?

¶10. (SBU) Stakeholders in both the public and private sectors seem to think that the GDRC is serious about forestry sector reform; however, many expressed frustration with the approach being taken by the administration. Industry experts believe that, in addition to the conversion process, the GDRC must adopt supportive legislation on decentralization and zoning in order to ensure that the goals of economic development and improved conservation are realized in the near future.

¶11. (SBU) Successful decentralization is considered by many to be a necessary ingredient of a sustainable forestry industry in the DRC. All interviewed fear that without legislation to support decentralization in place, revenue inflows from industry taxes will not reach local communities as intended. Stakeholders also share a common concern that the lifting of the moratorium prior to the creation of proper zoning plans will be counter-productive to current conservation efforts. (Note: Forestry zoning is particularly important for regulating non-commercial uses of forests, such as subsistence agriculture, home construction, and firewood, which USAID/Carpe says have the greatest impact on bio-diversity and forest configurations. End note.) Although the 2005 Presidential Decree which established the moratorium requires a concession allocation plan for the first three post-moratorium years, the GDRC has done little to develop

such a plan. The lack of clarity regarding titles granted after the 2002 moratorium is an additional source of uncertainty and frustration for sector leaders.

¶12. (SBU) In Equateur, one of the most heavily logged and poorest provinces in the DRC, the Provincial Coordinator for the Ministry of Environment, Mr. Baseka, agreed that the GRDC is sincere in its efforts to reform the forestry industry; however, he said that the sector was unlikely to become a primary source of development for the region -- a view shared by Equateur's Governor, Jose Makila, who openly expressed disapproval of promoting or expanding commercial forestry. (Note: According to Van de Ven, the Governor has refused numerous requests to meet with the FIB. End note.) Noting the large amount of food imported into the region, both officials advocated the development of agriculture for poverty alleviation in the province instead.

International Community: Large Investments, Few Guarantees

¶13. (SBU) The GDRC has been able to capitalize on international interest in forest conservation within recent years and hopes to do so even more in the future, particularly as it relates to climate change and carbon credits. According to Greenpeace, deforestation is responsible for up to 20 percent of carbon emissions worldwide. To date, conservation efforts in the DRC have been led by USAID/CARPE and the Congo Basin Forest Partnership, CBFP (ref A). According to CARPE administrators, USAID/CARPE alone has devoted over USD 60 million to forestry conservation and sector reform in the Congo River Basin.

¶14. (SBU) The UK/DFID, EU, and Canada recently announced financial commitments of 50 million pounds sterling (USD 100 million), 38 million euros (USD 51.6 million), and 24 million Canadian dollars (USD 22.7 million) respectively. While exact allocations of these funds have not been determined, it is expected that the DRC will receive a significant percentage of these grants. In late June, the German Embassy to the DRC also announced it would dedicate 283 million euros (USD 384.6 million) to environmental work in the DRC. (Note: Germany is a primary stake-holder in the DRC's logging industry via the Germany-owned Danzer Group and is next in line to assume leadership of the CBFP. End note.) In June, the World Bank also announced the creation of a USD 250 million fund to combat deforestation worldwide, but especially in the DRC, Brazil, and Indonesia. The Bank has already made USD 3 million available to the DRC for post-title conversion work. It also plans to prepare, by

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2009, a grant through the International Development Association (IDA) of between USD 30 million and USD 50 million to help the DRC plan and manage its forests. The GDRC also hopes to benefit from the G8's Forest Carbon Initiative, which will grant developing countries carbon credits for prevented deforestation.

¶15. (SBU) Those interviewed were particularly critical of the World Bank's role in this process and questioned its motivations and management of its funds. Neither private nor public sector representatives interviewed had a positive impression of the World Bank's role in this process. Recalling how grant conditionality had been used by the Bank in 2002 to push the GDRC to develop a Forestry Code and set a moratorium on logging concessions, private enterprises viewed the Bank as a "bully" or undue source of pressure in the sector. Van de Ven was particularly critical of the amount of money and time spent on this initiative and the way the World Bank's resident forestry expert had "made a mess of the situation" through personal mismanagement of information. (Note: Public sector reps also questioned the Bank's motivation, claiming that its primary interest was commercial forest exploitation. The Bank is criticized by the

Greenpeace April 2007 report "Carving up the Congo" for failing to control the "illegal pillage" of the forest. End note.)

Comment: Not Meeting Expectations

¶16. (SBU) There is broad consensus (within the DRC and internationally) that pursuing forestry sector reform is a positive and necessary step; however, there is disagreement as to whether the current concession conversion process is the best way of achieving the goals of private sector development, community-based resource management, and improved conservation. Unsupported by additional legislation on decentralization, privatization, and zoning, the conversion process is short-sighted and lacks elements necessary for the sector's long-term growth and sustainability. Both private and public sector representatives seem to feel that incomplete reforms of this nature will only contribute to greater uncertainty in the industry.

¶17. (SBU) Comment continued: Given the leadership role played by the USG through USAID/Carpe, the CBPP, and in the World Bank, the USG is well-placed to support and advocate the additional steps needed to promote sustainable forest sector reforms in the DRC post-forest title conversion process. Lifting of the moratorium on new forestry concessions is conditional upon implementation of a necessary, but not yet completed, zoning of the nation's forests into conservation, logging, and multiple use zones, to be followed by a transparent bidding process for new logging concessions. A streamlined tax system for logging that transparently shares forestry tax revenues with local communities and the new decentralized government bodies is also a near-term priority. Strengthening GDRC management and oversight of forestry activities, including awarding of concessions, monitoring of logging activities consistent with laws, and good environmental stewardship and revenue management, will boost investor confidence and create support for sustainable forest management. Investment in physical infrastructure, such as roads, railways and ports, is a massive and long-term undertaking which will require the concerted effort of the GDRC and the international community, but it is critical to the success of the forestry industry and to the overall development of the economy. End comment.

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